



KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

The Honorable Governor and Honorable Members of the State Legislature
State of Delaware, Department of Transportation
Dover, Delaware

October 12, 1007

Ladies and Gentlemen:

We have audited the financial statements of the State of Delaware Department of Transportation (the Department), for the year ended June 30, 2007, and have issued our report thereon dated October 12, 2007. In planning and performing our audit of the financial statements of the Department, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in the attached Appendix A.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Department's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of the State of Delaware Department of Transportation, management, Office of the Governor, Attorney General, Office of Management and Budget, Department of Finance, and others within the State and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Appendix A

New Comments

Toll System Controls

Observation

We noted several exceptions related to general controls over the toll system. Specifically:

- Although the Department has an access control policy over the toll system, users are not required to acknowledge in writing their receipt and understanding of the access control policy. Documented acknowledgement facilitates more efficient and effective enforcement of the policy.
- There are system limitations around password control configuration for the host system, and there is not a documented password configuration policy, so that strong passwords (with a combination of characters, numbers and symbols), which are less vulnerable to misappropriation, cannot be enforced.
- The system development lifecycle methodology used by the State's Department of Technology and Information could not be obtained for the audit team's review. There is an upgrade to the toll host system planned for fiscal year 2008 for which the Department should maintain documentation of the system development lifecycle methodology followed and the Department's compliance with it.
- Although the Department has procedures in place regarding backup of information, there was no test of the backup restoration process during the audit period. As a result, the Department has no means of detecting the existence of ineffective or poor quality backup media.

Recommendation

We recommend that the Department develop or further document policies around:

- user acknowledgement of their receipt and understanding of the access control policy
- strong passwords
- system development lifecycle methodologies to be followed for the 2008 system upgrade
- periodic testing of the backup restoration process.

We further recommend that the Department consider whether limitations around password configuration in the current system can be overcome through system changes.

Management's Response

Changes are being made to the existing Access Control Policy and Access Control Form that require the user acknowledge their receipt and understanding of the Policy; this change will be fully implemented by January 1, 2008. Existing password control limitations will also be corrected to meet DTI standards by January 1, 2008.

In fiscal year 2008 an upgrade is planned to the toll host system, the system development lifecycle methodology will be documented and will comply with DTI guidelines.

OIT will be performing a test of the backup in the 2nd quarter of FY 08. This will be performed as it has been in the past on an offline development machine. The last test was performed in the 4th quarter of FY 06.

New Accounting Pronouncement

The Governmental Accounting Standards Board has issued GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Standard addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

Once an obligating event as defined by the Standard occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether those outlays should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention–related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The government commences or legally obligates itself to commence pollution remediation.

The Standard is effective for the year beginning July 1, 2008, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated. Governments that have sufficient objective and verifiable information are required to apply the Standard retroactively to all periods presented.

Recommendation

We recommend that the Department develop an inventory of sites that may be impacted by the Standard, as well as obligating events that have occurred or are likely to occur, in preparation for the Standard.

Management's Response

DelDOT will follow all state guidelines and policies relating to the new accounting pronouncement once they are developed and implemented by the State. DelDOT will also follow-up with an internal policy to identify impacted sites and comply with all reporting requirements. DelDOT will establish and maintain an inventory of impacted sites by January 31, 2008 and anticipates full policy implementation by June 30, 2008.

Status of Prior Year Comments

DMV Policy Manual

Recommendation

DMV should dedicate the resources necessary to establish a standardized employee policy and procedures manual. The manual should be reviewed as part of new employee training and periodic staff meetings to insure consistent application of the practices.

Status—Partially complete

Management's Response.

DMV has completed a detailed procedures manual for the internal operations of the Audit Section. As staffing allows, the Section will continue working to update existing procedures and establish new procedures for the cash rooms and the front line operations. DMV is currently in the process of creating a Senior Accountant position for the Audit Section. This new position will facilitate and expedite the development of the new policy and procedures manuals.

DMV has also established a more detailed and up to date tracking system using Quick Books, which will provide the information necessary to conduct the planned meetings with operational management.

Estimated completion—by end of fiscal year 2008

DMV Waiver of Fees

Recommendation

All fee waivers both routine and non-routine should be reviewed and approved by a supervisor prior to being entered into the system. Supporting documentation to support each fee waiver should be collected and maintained to allow for management to review and approval.

Status—Partially complete

Management's Response

The Audit Section has been working on a fee waiver review process. There were substantial technical delays in obtaining the computer tools necessary to prepare the management reports necessary for proper identification and review. The Audit Section has also been working with operational management to develop meaningful reports and to establish a schedule and process for review. All supporting documentation will be collected and reviewed by management.

Until the improved system and procedures are in place all waivers not relating to Delaware Code and/or established DMV procedures will continue to be approved by a supervisor, with documentation maintained at DMV. Management will continue to review monthly waiver reports.

Estimated completion – February 2008.

Arbitrage Liability Calculation

Recommendation

Currently DelDOT contracts with an accounting firm to calculate the arbitrage liability on bonds on the five-year payment date of each bond. DelDOT should extend the contract to perform limited procedures to calculate an estimate of the liability for bonds during the four years they are not required to perform the actual calculation and fund the required reserves.

Status—Fully corrected

Management's Response

On June 19, 2007, DelDOT entered into a contract with PFM Asset Management LLC to calculate the arbitrage liability on bonds on the five-year payment date for each bond. PFM Asset Management LLC will also perform annual liability estimates for all other bond issues during the four years they are not performing the actual liability calculations, as recommended. DelDOT also agrees to fund the existing Rebate Reserve Account as defined in Section 7.22 of the Trust Agreement between the Delaware Transportation Authority and Wilmington Trust Company.